



Medium-Term Management Plan (FY2019 to FY2021)

Establishing a Foundation for Sustainable Growth

May 9, 2019

NIKON CORPORATION

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Overview of the Restructuring

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Management Policy

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Strategic Initiatives

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Corporate Goals

Goals and Basic Principles of Restructuring

(From Materials Released Upon Announcement of the Restructuring in Nov. 2016)



Objective of restructuring :

**Company-wide restructuring to improve value creation:
Strategic pivot from revenue growth to profit growth**

Basic principles:

Create a companywide **focus on “high value-added businesses”** to improve profitability

Optimize R&D, sales, and manufacturing structure on a global basis

Streamline HQ functions to match scale of restructured businesses

Simultaneously **shift to portfolio based management, implement targets linked to shareholder value, and enhance governance structure** to improve transparency and discipline



We will prioritize the restructuring of Semiconductor Lithography, Imaging Products Businesses and HQ functions.

Overview of the Restructuring



Implement "high value-added businesses" for Semiconductor Lithography Business and Imaging Products Business

Exiting/Selling certain businesses besides from Semiconductor Lithography Business and Imaging Products Business

Reduction of fixed costs by more than ¥30.0 billion and improve profitability

- **"Introduce capital market-linked management KPI" and "redefine business roles"**
- **Define business policies depending on the roles and establish a foundation for portfolio-based management**



Improve profitability and enhance management DNA

Indicators Attained Through Restructuring



	Before Restructuring (FY2015)	After Restructuring (FY2018)
Revenue	¥841.0 billion	¥708.6 billion
Operating Profit	¥ 35.2 billion	¥82.6 billion (¥67.6 billion)
Operating Margin	4.2%	11.7% (9.5%)
ROE	5.5%	11.2% (9.4%)

Figures in parentheses show amount excluding approx. ¥15.0 billion temporary profit by litigation settlement



Realized enhanced profitability in existing businesses, especially Semiconductor Lithography Business and Imaging Products Business

As Restructuring Completed



- Conducted preemptive restructuring three years ago, even while profit was generated
- Profitability improved in existing businesses, especially Semiconductor Lithography Business and Imaging Products Business

Imaging Products Business

The market contraction is expected to continue for Imaging Products Business in the future

FPD Lithography Business

FPD Lithography Business, which has had several years of good performance is also expected to plateau

Semiconductor Lithography Business

Harsh competition is also expected to continue for Semiconductor Lithography Business, which underwent significant profitability improvement

Nikon will focus on business opportunities that will ensure profitability exceeds capital costs

Other growth driver candidates (incl. Healthcare business)

Nikon will continue to cultivate high growth potential businesses such as Healthcare business from a long-term perspective



The greatest challenge in sustainably increasing enterprise value is generating new core pillars of profit while improving the profitability of existing businesses

Overview of the Restructuring

Management Policy

Strategic Initiatives

Corporate Goals

Our Philosophy

Trustworthiness and Creativity

Our Vision

Unlock the future with the power of light

Our Goal

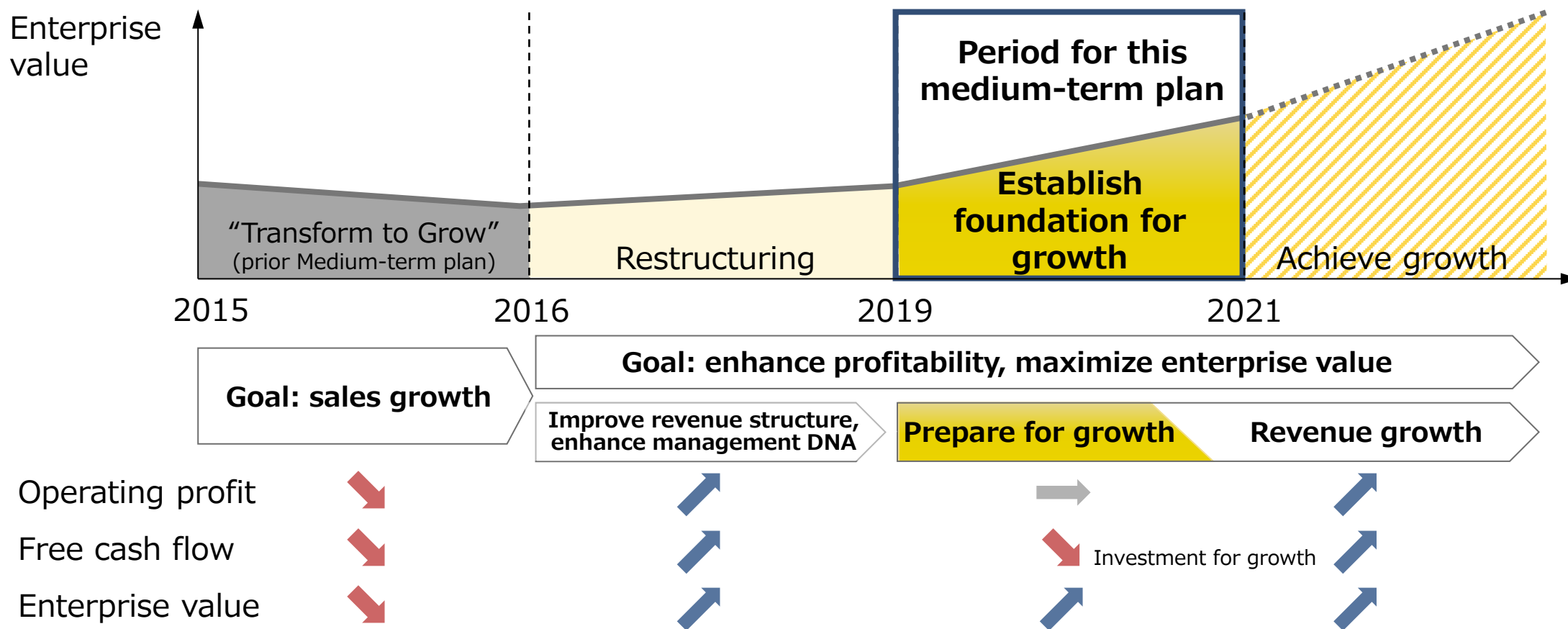
"Leading Company in Precision & Optics"

Nikon will focus on businesses with a leadership position and scope in the field of precision and optics to realize sustainable growth of enterprise value in medium- to long-term.

Positioning of the Medium-Term Plan



Nikon will invest proactively in preparations for establishing a foundation for growing enterprise value sustainably



Overview of Strategic Initiative



Generating New Core Pillars of Profit

Early acquisition of new engines
through aggressive investing in new fields
(Establish Material Processing Business)

Improving Profitability of Existing Businesses

Enhance profitability
of the 3 main existing
businesses
(Imaging Products, FPD,
Semiconductor Lithography)

**Reform Cost
Structure**

Enhancing Monodzukuri (manufacturing) Foundation

Establish “monodzukuri structure” by digital manufacturing

Enhancing the Corporate Governance Structure

Appointment of management,
successor training plan

System where evaluation and monitoring of
strategic decision-making can be implemented
effectively

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Macro Trends (Social Issues and Needs)

Digital transformation
Industry 4.0 IoT
AI Rising medical costs
Aging



Areas of Long-Term Growth

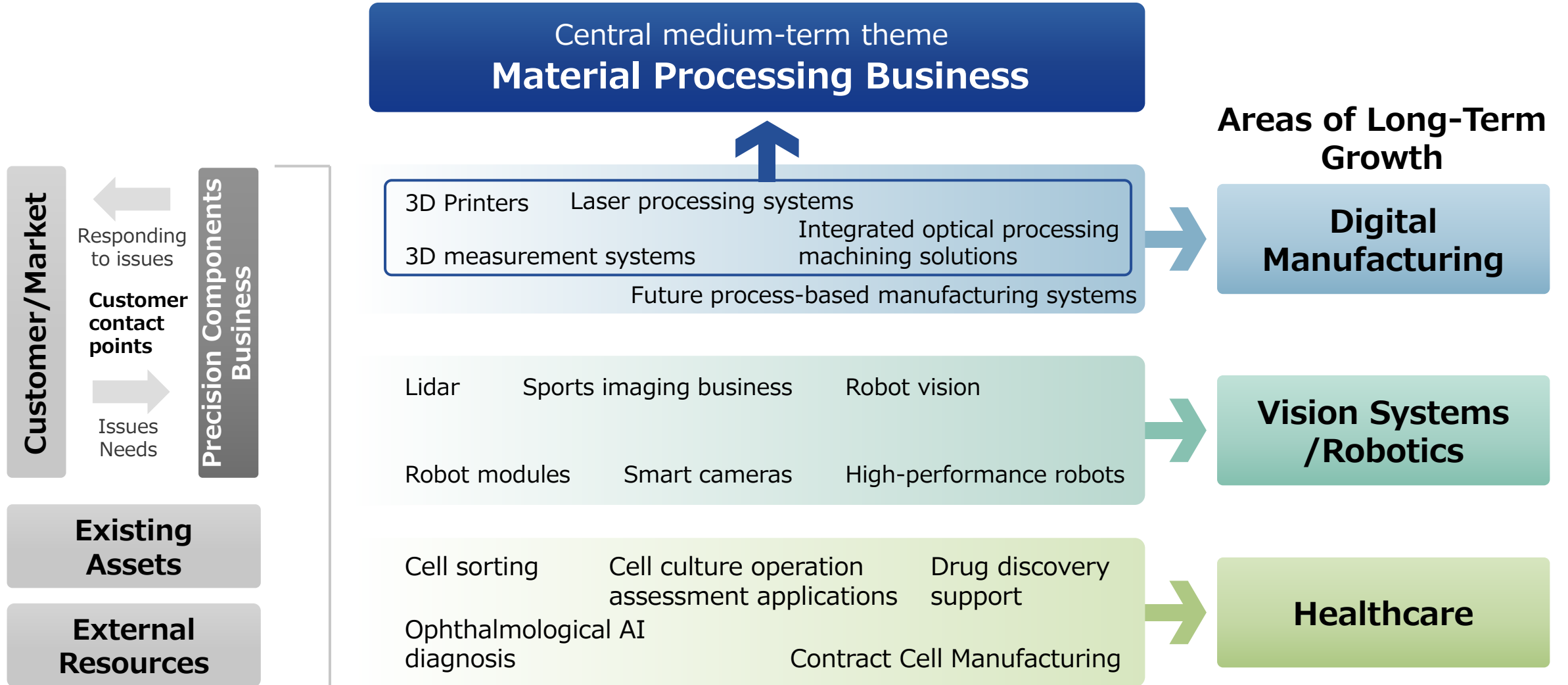
Digital Manufacturing **Vision Systems /Robotics** **Healthcare**



Existing Assets

Optical
Image processing
Customer base Precision measurement and manufacturing
Control
Supply chain management





Establish New Core Pillars of Profit by FY2021

— Rationale for selecting Material Processing Business

Generating New Core
Pillars of Profit



Sizable market with growth potential

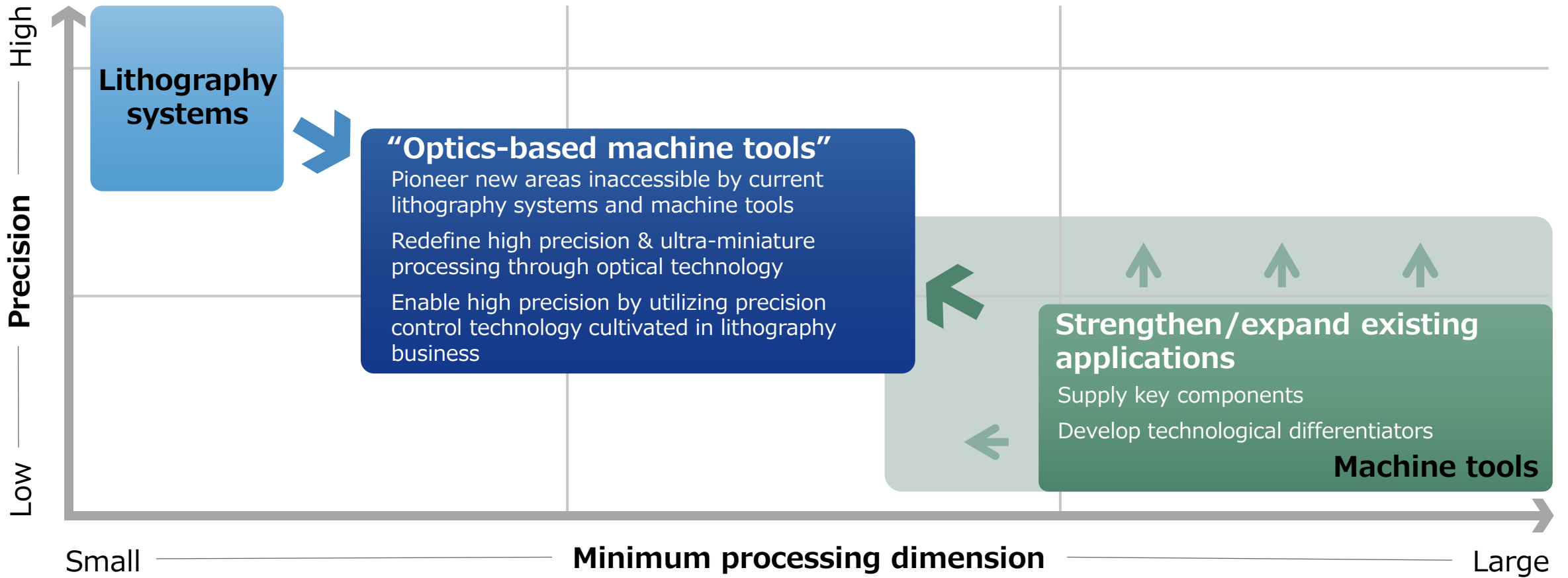
- Market growth expected from increasing societal needs such as for manufacturing automation / mass-customization
 - Machine tool market accounts for approx. ¥4T and is expected to grow at ~5% p.a. in both developed and developing economies
 - 3D printer market to account for approx. ¥550B by 2026, and is expected to grow at ~20% p.a.

Potential to establish Leadership position

- Develop state-of-the-art machine tools by utilizing expertise in high precision stage control and non-contact 3D metrology technologies cultivated in Semiconductor / FPD lithography / Industrial metrology businesses, and optics application technology
- Enable high-precision material processing at groundbreaking short lead time and low cost
- Expand business across a wide span of fields, including supply of productivity-boosting components for conventional machine tools



Create new manufacturing markets and industries in Monodzukuri field



External Collaborations

Open innovation
 Taking on external technology
 Cooperation with machine tool manufacturers



Deployment

Innovative material processing devices/systems

Realize novel, rapid, low-cost, high-precision material processing

Create new markets and industries in Monodzukuri field

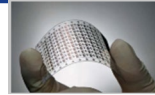
Technologies to enable creation of new markets and industries

Precision measurement & feedback

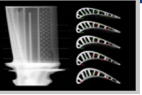
Diversified materials

Additive surface manufacturing

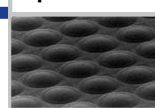
Ultra-miniature parts



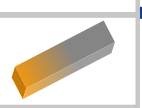
Difficult-to-cut materials



Fine patterns



Composite materials



Enable pre-setup-less manufacturing via embedded 3D alignment mechanism

Entry into market



Optical processing machine*

Supply components

Machining tool/3D printer embedded measuring systems



Lithography systems



Measuring and Inspection systems

Deployment techniques cultivated from the development and production of Lithography / Measuring and Inspection systems for use in the material processing field

*Optical processing machine: This optical processing machine is a Nikon's proprietary metal processing machine that performs various metal processing with ease and with high precision using laser. Its capability encompasses additive manufacturing as a 3D printer, laser marking & welding and even polishing

Main Product Groups

Digital cameras-interchangeable lens type (ML / SLR) / interchangeable lenses / compact DSC

Awareness of the Business Environment

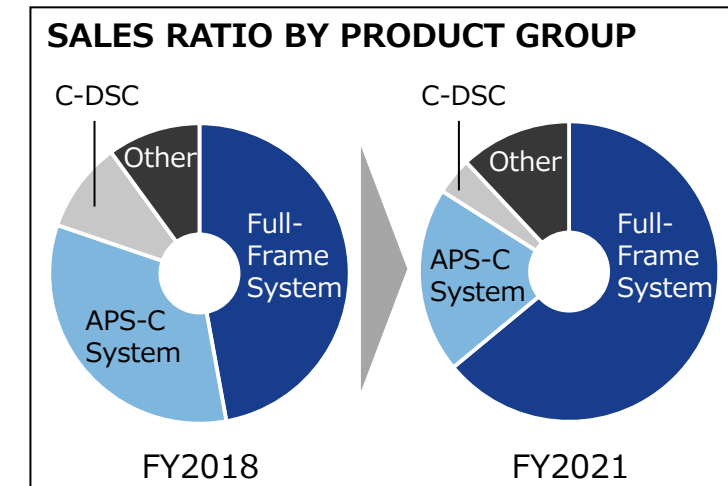
- Interchangeable lens camera market is expected to shrink and halve in the medium- to long-term especially for D-SLR entry models, while shift to ML accelerates
- The Z-series' true appeal and full potential will require time to be fully realized
 - The Z-series is already highly praised in the market, winning various major awards
 - Nikon has only just started establishing a lens lineup that will maximize the appeal of the Z-series

Strategy Direction

- Focus on products of full-frame systems to take hold of the mid and high-end model users
- Acquire new photo/video hobbyists such as smartphone users
- In light of expanding market shrinkage, take further steps to continue cost structure reform

Primary Initiatives

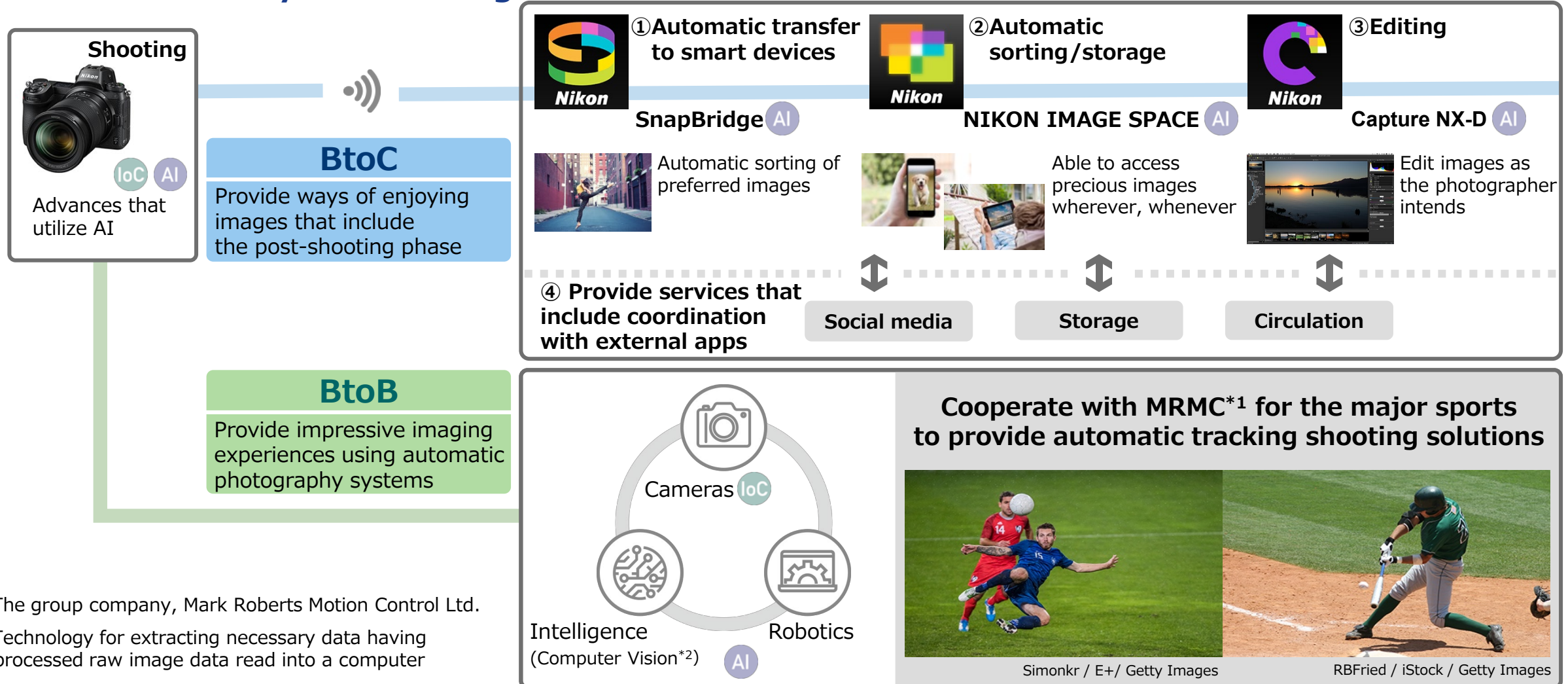
- Complete the lineup of Z-mount system
- Launch strategic mid and high-end D-SLR products
- Enhance coordination with social media/imaging apps to offer a unique imaging experience that stretches beyond shooting
- Reconsider production and marketing structure, and improve sales expenses and developing costs efficiency



Stably secure ¥20B+ operating profit as a base cash flow for Nikon



Enhance coordination with social media/imaging apps to offer a unique imaging experience that stretches beyond shooting



*1 The group company, Mark Roberts Motion Control Ltd.

*2 Technology for extracting necessary data having processed raw image data read into a computer

Main Product Groups

FPD lithography systems / service business

Awareness of the Business Environment

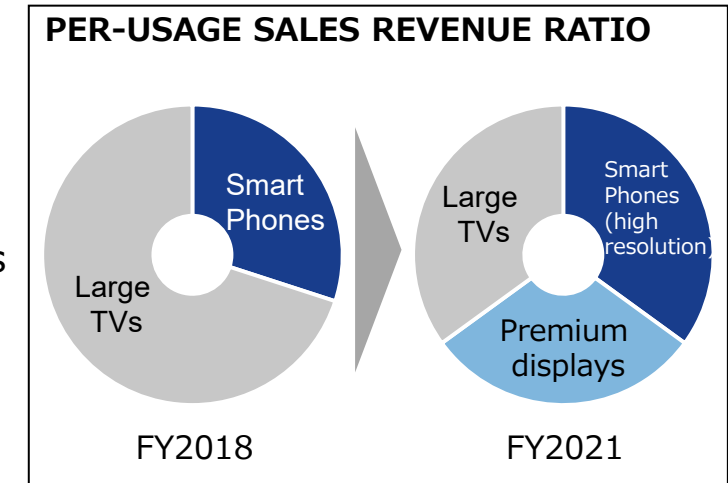
- The market may see considerable fluctuations in demand due to short-term slumps caused by the end of the current cycle of demand for smartphones and large TVs, and factors such as backlash over investment in large scale facilities in China
- Nonetheless, as displays themselves are central to expressing images, the display market is expected to have stable demand
- Market growth is anticipated in foldable, panels for automobile, new displays*, etc.

Strategy Direction

- Reliably perceive customer needs and produce new lithography systems and services to increase profitability
- Reduce the total cost of the lithography process to promote invigorating the market

Primary Initiatives

- Evolution of current FPD lithography systems, handling of premium displays
 - Increase the resolution and productivity of G10.5 / G8 / G6 lithography systems
- Uncover customer needs and enhance service businesses
 - Utilize the installed base to develop businesses that grasp latent needs of customers (Reduce the cost of peripherals, operational support business)



Keep leadership position in markets where stable demand is expected in the medium- to long term

* VR/AR, QLED, μ LED, Digital Signage, etc.



Main Product Groups

Semiconductor lithography systems / service business

Awareness of the Business Environment

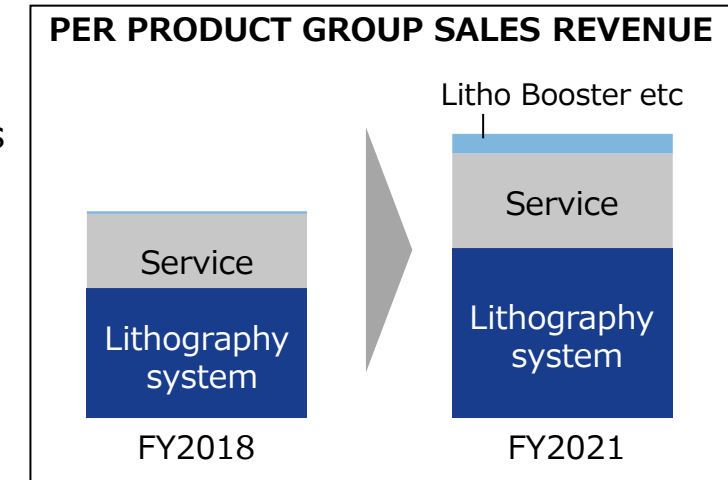
- Steady growth is expected in the semiconductors market in the mid- to long-term, driven by various applications such as IoT, AI, 5G, and autonomous driving
- While the emphasis of developing cutting-edge processes will shift to EUVL lithography systems, there will be a brisk market for immersion lithography systems

Strategy Direction

- Continuously implementing “high value-added business” to focus on securely profitable ones
 - Optimize production quantities, including handling increased production according to customer demand
- Utilize the installed base to its maximum to expand the services businesses

Primary Initiatives

- Drive development towards expanding existing device platforms
 - Support for the 5 nm generation: immersion lithography systems
- Utilize technologies cultivated through the lithography systems for marketing in the new field of "Litho Booster" measurement devices
 - Litho Booster : Enables higher process controls through groundbreaking measurement capabilities



Continue stable generation of CF through the profitability-first business strategy

Cost reduction 3-year total: ¥18 billion

Optimize supply chain

Zero-based review of the costs, duties, and functions of
management and back-office departments

Optimize marketing and production systems

Reform processes and shorten manufacturing lead-time



Corporate Goals : Establish “monodzukuri structure” by digital manufacturing

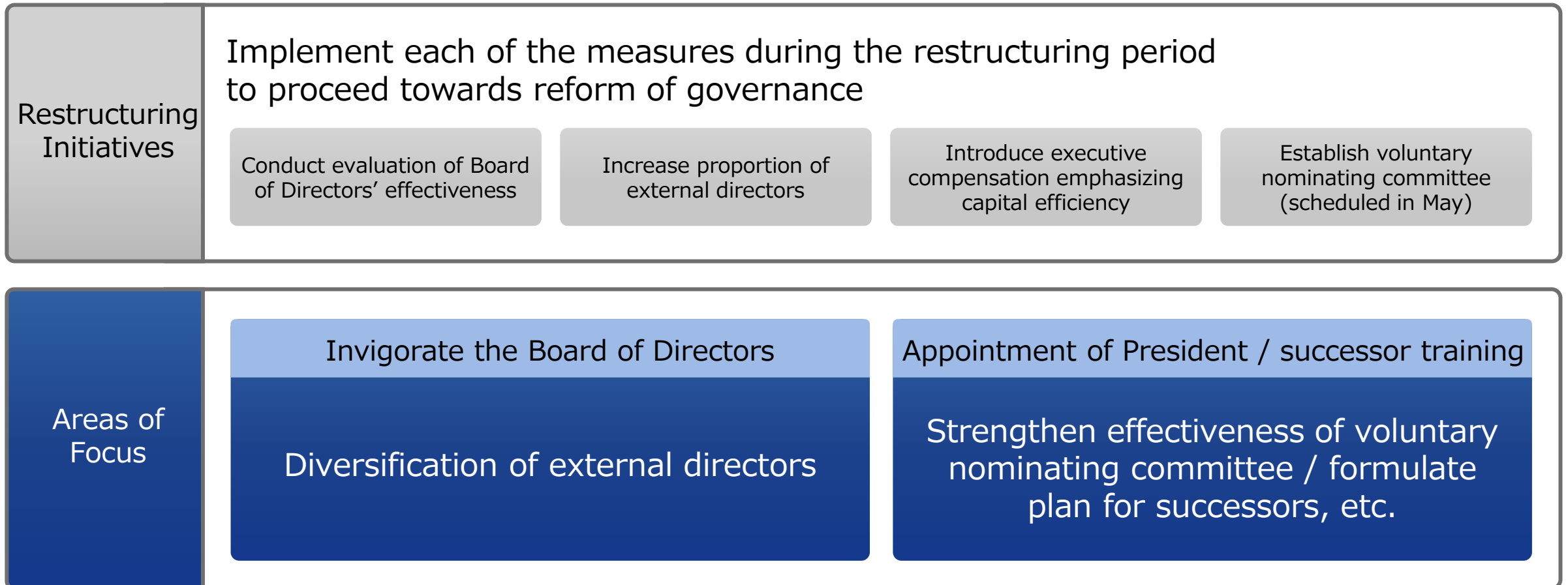
Macro Trend	Further advancement of digital manufacturing IoT and AI will revolutionize the speed and efficacy of various processes, shifting the sources of competitive advantage in manufacturing
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Key Success Factors	R&D sharply focused on customer needs	Swift product launches and frequent improvement cycles	Enhanced price-competitiveness
	Further enhance technology and Nikon quality		



Key initiatives	Production System Reform	Monodzukuri Technology Reform	Procurement Reform	Quality Management Reform
	Human resource development of Monodzukuri technology			



Implement comprehensive initiatives to further enhance governance

Overview of the Restructuring

Management Policy

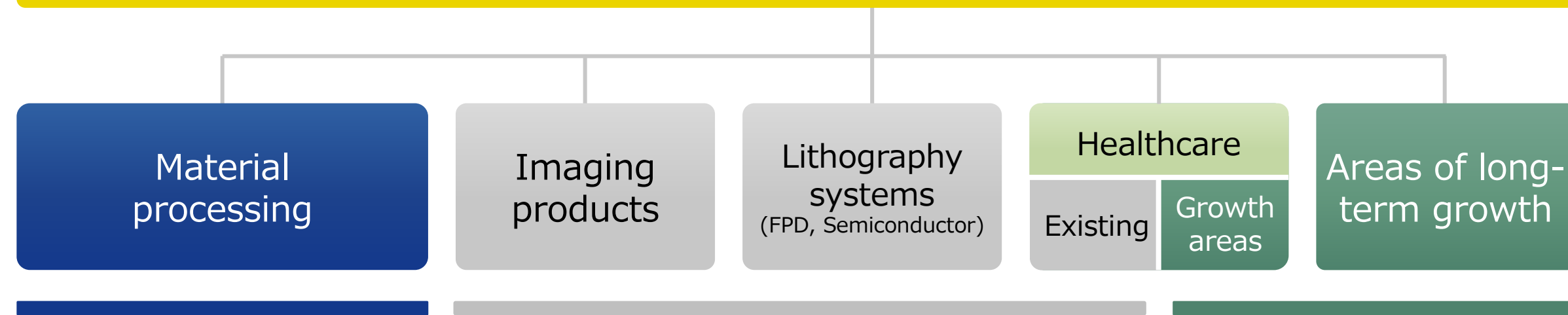
Strategic Initiatives

Corporate Goals

Nikon's Medium- to Long-Term Goal



**Nikon will be a leading company in precision & optics fields,
consisting of businesses possessing scale and leadership position within the fields**



Areas of Growth During the Medium-Term Plan Period

- Aim for leadership position in the global market
- Generate operating profit of ¥10B+ in the future

CF Generation

- Maintain Nikon's share in important customer and product segments
- Generate stable CF through profitability-first business operations

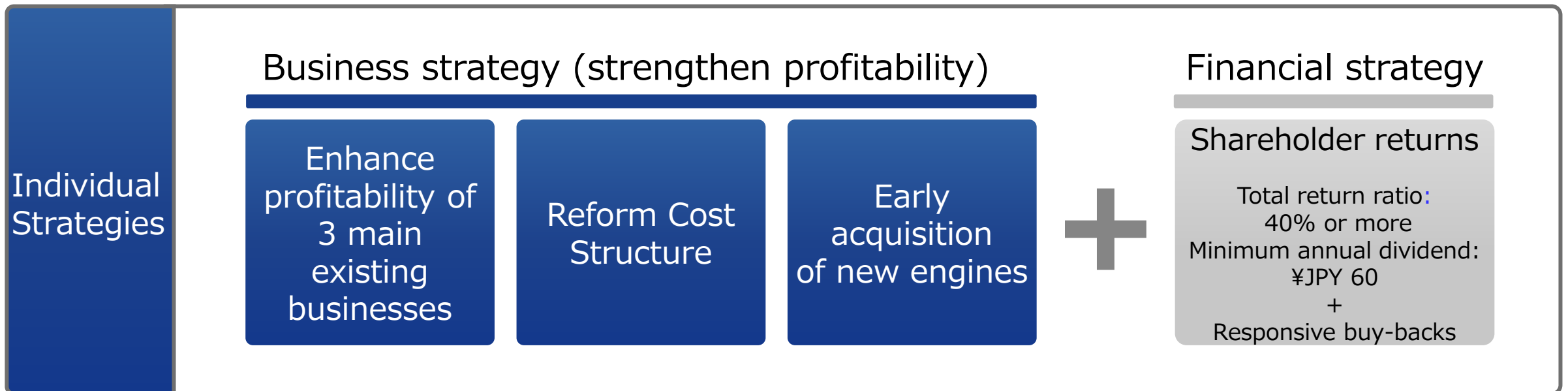
Candidates for Long-Term Growth

- Assess opportunities for growth and examine feasibility

Management KPI Targets: To achieve during the medium-term plan



Target	FY2021: ROE at a level higher than 8%
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Aim for stable ROE of 10 to 12% from FY2023 onward

Illustration of Operating Profit for Each Segment



Operating profit (JPY billions)		FY2018	FY2021	FY2023
Existing businesses	Imaging Products Business	22.0	20.0+	
	Precision Equipment Business (FPD, Semiconductor)	81.7 (66.7)	50.0+	100.0+
	Healthcare Business/ Industrial Metrology and Others	5.0	10.0+	
Material processing business, areas of long-term growth		-	to 20.0	20.0+
Corporate Profit/Loss non-attributable to any reportable segments		-26.1	-20.0	-20.0
Consolidated		82.6 (67.6)	70.0+	100.0+

Figures in parentheses show amount excluding approx. ¥15.0 billion temporary profit by litigation settlement

Prospect: Medium- to Long-Term Resource Allocation



Focus resources on new fields to establish new core pillars of profit, without emphasizing short-term FCF

	Strategic Investments	R&D	Capital Investment	Dividend & Other	Proportion
New fields (Material processing business, areas of long-term growth)	Max 40%	10%	5%		40 to 50%
Existing fields		25%	10%		30 to 40%
Return to shareholders				10% or more Total return ratio 40% or more	10% or more
Total	40%	35%	15%	10% or more	100%

Scope: Funds on hand - working capital + 5-year cumulative operating CF (before deducting R&D)

Upon completion of restructuring, Nikon strives to be a leading company in precision & optics fields that realizes sustainable growth of enterprise value in medium- to long-term.

The medium-term plan's target is to establish a foundation for growth, with emphasis on enhancing long-term profit-generating capability.

To realize this, Nikon will focus on generating new core pillars of profit while improving the profitability of existing businesses.

The performance forecasts and predictions regarding the future recorded in these materials detail Nikon's assessments based on information that is currently available and includes latent risks and uncertainties. Consequently, please be aware that future changes in various factors may cause actual performance to differ from details recorded here.



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